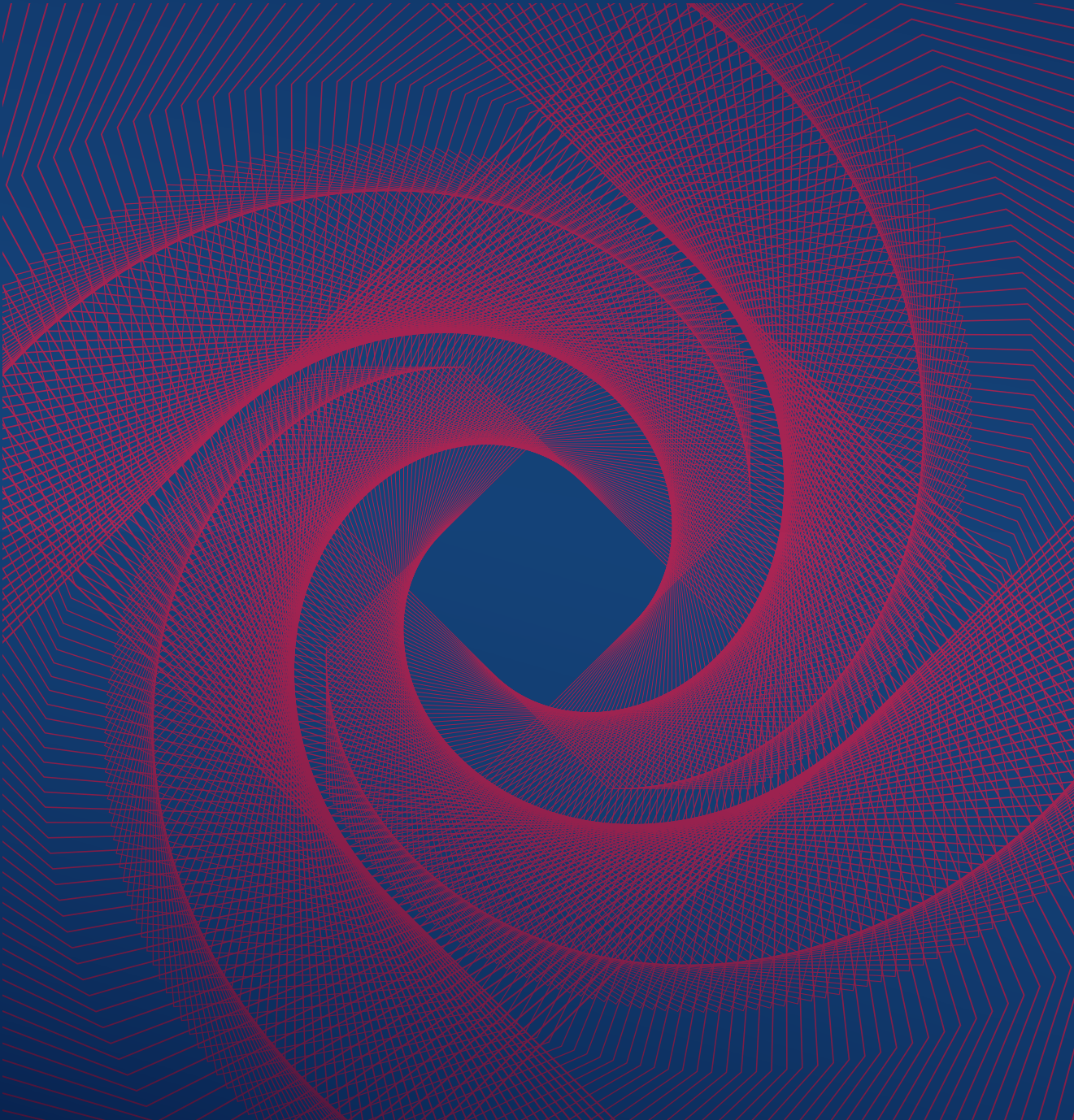


M25 Offices

Q1 2022



**KEY
TAKEAWAYS**

1

Although active demand remained robust, transactional activity was slow at 59% below the 10-year average.

2

Technology occupiers accounted for 44% of space let in Q1.

3

Vacancy registered a marginal increase albeit Grade A availability continues to fall.

4

Investment interest holds firm despite greater caution.

5

Investment for repurposing rising in the South East.

EXECUTIVE SUMMARY

Slow start to 2022.

Although market interest has remained largely stable, leasing volumes in the first quarter reflected a marketplace of greater caution. Take-up for Q1 was 316,300 sq ft, 59% below the 10-year quarterly average. Notably, whilst the number of deals at below 10,000 sq ft was consistent with the long-term trend, a dip in small to mid-range deals was the principal reason for the below average take-up. In the 10-20k sq ft range for example, only six were completed during the quarter which compares with 16 as a quarterly average.

Even so, the outlook for the coming months presents a more optimistic picture. At the end of Q1, analysis showed 4.8 million sq ft of unfulfilled occupier demand was present moving into the second quarter. This highlights the scale of market rebound from the depths during 2020, where active demand fell to 3.5 million sq ft.

Technology sector dominant.

The UK technology sector has navigated the economic damage from Covid relatively unscathed, with the pandemic even accelerating business growth of some industry segments. Occupiers from the Telecoms, Media, and Technology sector accounted for 44% of take-up across the South East in the first quarter and 29% over the past 12 months. With technology derived employment in the region forecasted to grow by 11% by 2030, well ahead of the national average, the South East is

predicted to be central to the next wave of technological progress and extend its global influence and reputation as a tech centre.

Vacancy rising, but best quality remains scarce.

Market vacancy registered a further increase to 7.2% in the first quarter, principally because of depressed transactional activity. At the end of Q1 2021, total office availability was 11.6m sq ft. Although this represents a rise of 21% over 12 months, current availability levels remain on par with the 10-year average. Interestingly, grade A space accounts for 70% of this total, this is the lowest proportion since 2014. The vacancy rate for new and Grade A space specifically is now 5%. This level is 20bps below the 10-year average and the lowest level for 24 months.

At the time of writing 1.8m sq ft of speculative development is due to complete within the next 24 months. Of this total, 55% of works are refurbishment schemes. With the pipeline schemes under increasing scrutiny regarding build cost inflation, the future development landscape in the South East is expected to remain thin and targeted.

Solid start despite investor caution.

Although the geopolitical landscape is diluting investor sentiment, investment volumes in Q1 2022 reached £336m, with 17 transactions completed. The overall deal rate was just short of the long-term trend, indicating an investor

willingness to transact given the right opportunity. All but one investment deal in Q1 was below £50m in contrast to the experiences of 2021 when 19 deals of this scale were completed. This record level of high value transactions has left a void of opportunities in the market at present.

Reinvention becoming a factor.

The first quarter further demonstrated the increasing interest of reinvention or repurposing of South East office assets. During the quarter, the freehold interest of the 8.5-acre Weybridge business park in Surrey was acquired by US real estate group Bridge Industrial for £55m. This follows several office sales in 2021 that saw assets sold for repurposing to life sciences, data centres, last mile logistics and residential development.

Prime yields remain robust.

Prime headline yields were unchanged at 5.25% in the first quarter, with prime multi-let asset at 6% albeit there are few examples of the latter coming to the market as vendors look to retain their best assets. Even as market risk seemingly increases in response to ongoing uncertainty, a softening from this position is not anticipated in the short term. The reason? Market activity is increasingly being underpinned by a diverse pool of buyers that are under pressure to invest and are principally interested in prime property. This means that competitive pressure should dissipate any potential for an outward shift.

OCCUPIER MARKET

The technology sector continued to dominate occupier enquiries and leasing activity. Vacancy is rising albeit the availability of best quality space remains limited

SOUTH EAST Q1 TAKE-UP

316k sq ft

▼ 50%
% difference compared to Q4 2021.



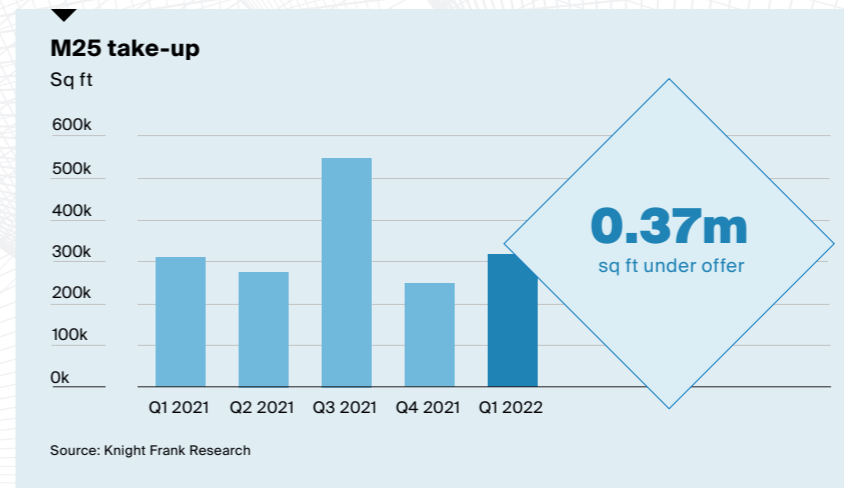
Croxley Park

Take-up and supply

Q1 2022

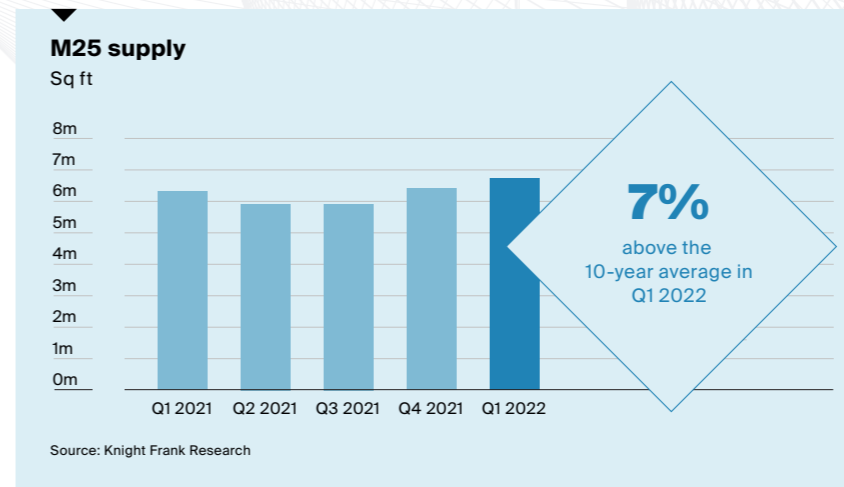
	TAKE-UP (SQ FT)	TAKE-UP (VS Q3 2021)	SUPPLY (SQ FT)	SUPPLY (VS Q4 2021)	VACANCY RATE
M25	247,449	▼ -49%	8.4m	▲ 4% New and Grade A space: 67%	6.9% New and Grade A space: 4.6%
M3	104,118	▼ -43%	2.0m	▼ -1% New and Grade A space: 70%	5.1% New and Grade A space: 3.6%
M4	157,806	▼ -41%	6.7m	▲ 5% New and Grade A space: 78%	10.1% New and Grade A space: 7.9%

Source: Knight Frank Research



Roddy Abram

The TMT sector remains the dominant sector accounting for 40% of Q1 take up. With demand at a healthy 4.8m sq ft, of which a over 30% is TMT occupiers, we are optimistic for whats to come in 2022.



Jack Riley

A slow Q1 is unsurprising given that most companies only began to return to the office in earnest in recent months. Viewing and enquiry numbers are rising meaning Q2 already appears more encouraging and where supply is particularly tight, headline rents are edging upward.

Key leasing transactions

Q1 2022

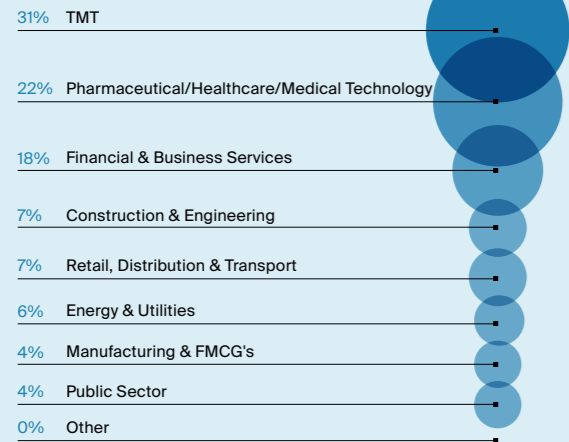
ADDRESS	SIZE SQ FT	OCCUPIER	RENT £ PER SQ FT
1 Foundation Park, Maidenhead	56,285	Ultra Electronics	£30.00
2 Causeway Park, Staines	47,479	ADP	£33.00
The Carbon Building, Reading	25,977	HM Courts & Tribunals Service	£12m
2 Forbury Place (1st flr), Reading	22,616	Rapid 7	£36.50
Ranger House (1st & 2nd flr), Guildford	20,842	Supermassive Games	Confidential

Source: Knight Frank Research

ACTIVE DEMAND: 4.5M SQ FT

Named demand in the South East

Active named demand by sector
Q1 2022



Source: Knight Frank Research

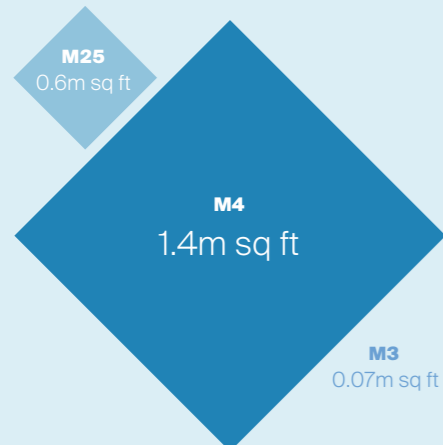
DEVELOPMENT: 2.3M SQ FT

Space under construction in the South East

*This includes pre-let (0.5m sq ft) and speculative space (0.6m sq ft)

Speculative development

Sq ft due to complete before 2023



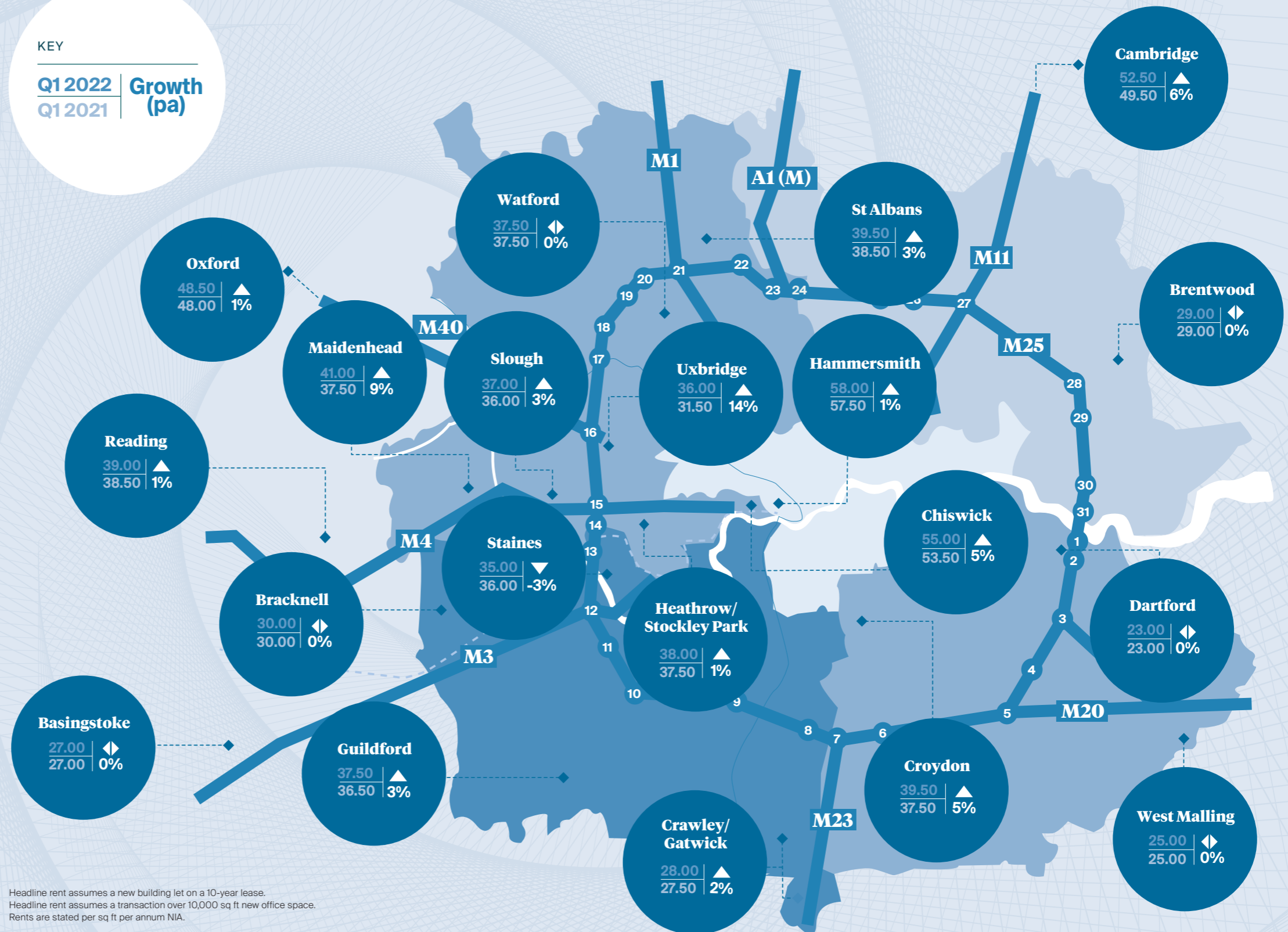
Source: Knight Frank Research

PRIME RENTS

£ PER SQ FT

KEY

Q1 2022 | Growth (pa)
Q1 2021



Headline rent assumes a new building let on a 10-year lease.
Headline rent assumes a transaction over 10,000 sq ft new office space.
Rents are stated per sq ft per annum NIA.



Trinity House

INVESTMENT MARKET

Investment interest held firm in Q1, with the buyer pool becoming increasingly diverse. Examples of repurposing plays are increasing as secondary stock is targeted for higher value use



£335.8m

South East transaction volumes



£19.7m

Average lot size



5.25%

Prime net initial yield

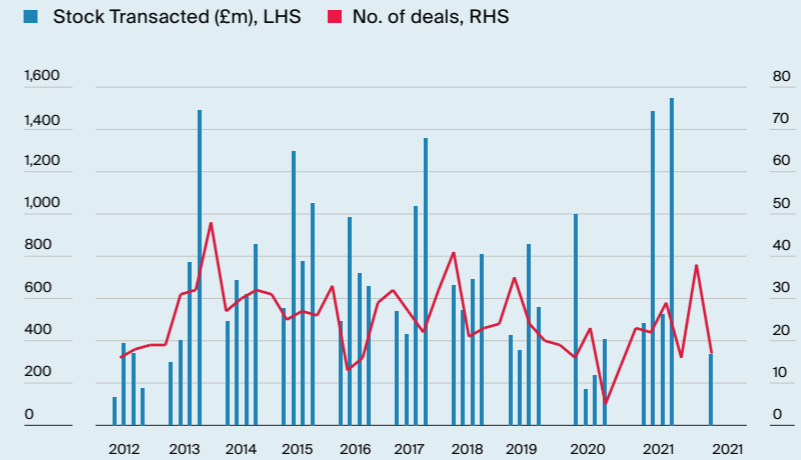


73%

Buyers from the UK

Footnote: Headline statistics are representative of Q4 2021.

Investment volumes



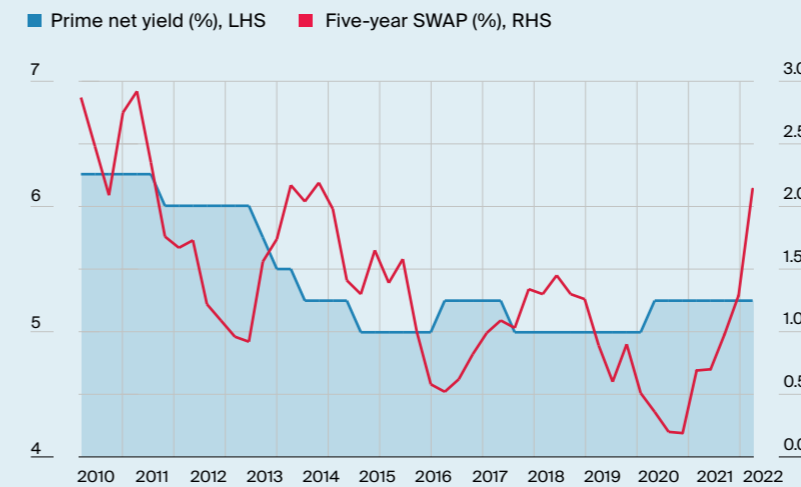
Source: Knight Frank Research



Simon Rickards

Investor sentiment remains strong for the right opportunities, with income deals, life-sciences and alternative use plays continuing to prove popular amongst a wide variety of buyers.

Prime net initial yield and finance



Source: Knight Frank Research



Tim Smither

Q1 volumes were held back by a lack of new stock being brought to the market, perhaps no surprise after the record volumes from 2021. We expect volumes to pick up as more stock is brought to the market in the coming weeks.

Key transactions Q1 2022

ADDRESS	PRICE (£M)	NET INITIAL YIELD	VENDOR	PURCHASER
Business Park, Weybridge	£55.00	N/A	abrdn	Bridge Industrial
Trinity House, Oxford	£41.60	N/A	Lateral/Devonshire	Breakthrough Properties
The Old Swiss, Cambridge	£41.50	N/A	CamProp	Elwood Fund Management
Kents Hill Business Park, Milton Keynes	£34.50	4.50%	Circle Property	LXI REIT Plc
Grove Business Park, Wantage	£33.00	3.00%	Private Investor	Oxford Endowment Fund

Source: Knight Frank Research

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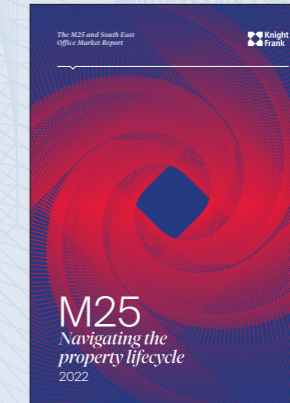
OFFICE & INNOVATION

RESEARCH

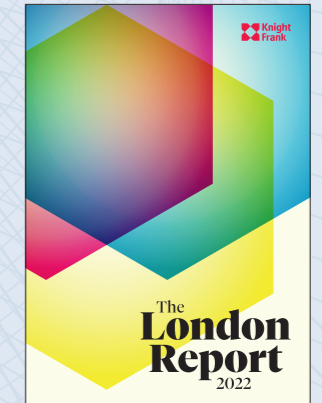
RECENT MARKET-LEADING RESEARCH PUBLICATIONS



M25 Key Markets



M25 - The Next Chapter



The London Report 2022



Active Capital



UK Cities Themes for 2022



(Y)OUR SPACE

TECHNICAL NOTE

- Knight Frank defines the M4 market as extending from Hammersmith, west to Newbury, incorporating Uxbridge and High Wycombe to the north and Staines and Bracknell to the south. Reading is also included.
- The M3 market incorporates the main South West London boroughs and encompasses Leatherhead, Guildford and Basingstoke extending north to the M4 boundary described above. Farnborough and Camberley are also included.
- The figures in this report relate to the availability of built, up-and-ready office/B1 accommodation within the M25 market. Vacant premises and leased space which is being actively marketed are included.
- All floorspace figures are given on a net internal area basis (as defined by the RICS).
- A minimum 10,000 sq ft (net) cut-off has been employed throughout. Major and minor refurbishment have been treated as new and second-hand respectively. Data is presented on a centre and quadrant basis. Classification by centre relates to the locational details contained within the marketing material for available properties. Classification in this manner is clearly somewhat arbitrary.
- Vacancy rate data is based on a total M25 stock measure of 121m sq ft (net), an M4 market stock of 66m sq ft (net) and an M3 market stock of 39m sq ft (net). Please note that a revision to total market office stock figures was applied in Q1 2017 to reflect 'change of use' permitted through the Town and Country Planning Order 2015.
- Second-hand floorspace has been sub-divided into A and B grade accommodation, reflecting high and low quality respectively. Whilst subjective, this categorisation is based on an assessment of each property's age, specification, location and overall attractiveness.
- The South East is defined as the market area shown in the map on pages 6/7. The market statistics quoted as 'South East' or 'South East Study Area' are however, exclusive of Cambridge, Oxford and Brighton.
- Pre-let = The letting of proposed schemes not yet under construction and those let during the construction process.
- All data presented is correct as at 30th April 2022.

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